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Parameters of Economic Reform in North Africa

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The debates over the successes and limitations of structural adjustment in North Africa swirl around how to understand the institutional framework supporting economic activity in the non-western world. To what extent are the investment roles for state leadership and for private enterprise, especially for export, a substitute for or complementary in the contemporary development process? How far should privatisation go? For example, should natural monopolies like telecommunications or strategic sectors like phosphate and oil production be sold off?

The North African economies' relationship to the international capitalist system is also up for debate. First, what role are these economies playing in the contemporary international division of labour? Are they vulnerable to global competition from other LDCs simultaneously expanding exports of products like textiles and electronics? Second, how successfully have they managed to diversify activities away from dependence on a single product or a few commodities for export? And third, how dependent are they on external finance of both the concessional and commercial forms? The hard reality is that these economies are in competition with other newly-industrialising countries to continuously attract foreign direct and portfolio investment.

Other questions concern domestic equity issues in relation to structural adjustment. Is there necessarily a trade-off of equity for efficiency as an economy liberalises and privatises, or does that depend on the political and social institutions operating in the society? Is it possible to effectively provide social services and human development without prejudicing existing or emerging incentives to save, invest and produce? Is it possible to reduce unemployment and poverty in the context of structural adjustment and if so is this outcome due to deliberate public policy choices or to the SAP itself?

It is an undeniable reality that the old social contracts broke down with the economic crises of the 1980s and new contracts were not put in place by structural adjustment programmes. The overarching challenge in the late 1990s is to move beyond the limitations of SAPs and to reconstruct social contracts that incorporate all segments of society and restore economic growth with equity. These questions were taken up in this journal, numbers 47 and 60. The aim here is to build on that debate by examining how successfully Egypt, Morocco and Tunisia performed under structural adjustment and how they illustrate the process of institutional rebuilding.

Egypt

Egypt provides a clear and early example of the state-led development model. In the 1960s, it pursued import-substitution industrialisation that included basic industries like iron and steel as well as consumer goods like processed foods, textiles and automobile assembly. Far from making the Egyptian economy autonomous from the outside world, however, these industries required imported capital, technology and other inputs in order to function. In the early years, these imports were paid for mainly by the export of cotton and some other agricultural products and by Suez Canal dues (the Canal was closed from 1967-1979 in the aftermath of the October War). In an attempt to ensure production levels for export commodities like cotton and that there was sufficient wheat to feed the population, the government required that the bulk of these kinds of products be turned over to a public agency at prices much below the world market. Central planning became very complex as the quantities and prices of most inputs and outputs were set by decree. This led in turn to the development of subsidies for many consumer goods in order to keep their prices low, and a set of subsidies for industrial firms, to compensate them when their revenues did not cover their costs.

This system had its virtues. There was increased access by ordinary people to education, health care and other social services, as well as in increased equality due to land reform in the countryside and the growth of industrial jobs in the cities. Over time, however, structural problems emerged. Imports were consistently greater than exports and this led to dependence on aid from international allies (first the USSR, then the USA) and to mounting indebtedness to international commercial lenders. Second, farmers gradually shifted their production away from regulated crops to lucrative non-regulated crops like animal fodder, fruits and vegetables. And third, subsidies to industries turned out to be (literally) counter-productive – they rewarded inefficient managers for failing to adapt production to changing circumstances.

Just as Egypt had been a pioneer in state-led development in the 1950s and 1960s, so did the announcement of the new Egyptian open door economic policy (*infitah*) in 1974 mark the symbolic end of that era in the Middle East. Ironically, however, there was little structural change in the Egyptian economy in the 1970s and early 1980s. Investment exceeded savings by a large margin every year from 1969 to 1989, just as imports exceeded exports (World Tables, 1991:229).Yet this 'resource gap' was closed and the economy boomed due to inflows of hard currency from several sources: US aid linked to the peace with Israel, a moderate level of export of newly discovered oil, tolls from the reopened Suez Canal, renewed international tourism, and remittances from migrant workers, as well as the build-up of debt to foreign lenders. With the infusion of these resources, Egypt experienced its most rapid macroeconomic growth ever, 8.4 per cent per year, from 1974-75 to 1984-85, as well as its highest total factor productivity growth, 5 per cent per year, during the 1970/71-1985/86 period (Handy, 1998:5-8). Furthermore, Egypt fared comparatively well in attracting foreign direct investment, ranking fourth among developing countries (ahead of Turkey, Indonesia, the Philippines and South Korea) in total amount received during the 1981-1990 period (World Tables, 1991-92).

The inflow of external funds enabled the Egyptian government to postpone hard policy choices that would sooner or later unmask the limitations of state-led development and import-substitution industrialisation. When the boom ended, it led for example, to a declining standard of living, as seen in the fall of per capita income from $US760 in 1988 to $US660 in 1990-1992 (World Tables, 1995). Furthermore, the end of the oil boom in 1985-86 led to shortages of foreign currency to finance imports of industrial and other inputs, fuelling a debt crisis that struck Egypt as elsewhere in the Third World. This made the Egyptian state more vulnerable to pressure from the importers and financiers who had flourished under the *infitah* since 1974 and also more susceptible to pressure for neo-liberal reform from the IMF and the World Bank. These pressures contributed to more intense social conflict than Egypt had known heretofore. The crisis of state-led growth simultaneously undermined political support from those beneficiaries of state-led development employed in public enterprises and the state apparatus.

An IMF analysis of Egypt's growth record shows investment to have been at an historic high of 25 per cent of GDP from 1974-75 to 1981-82, falling to 18 per cent of GDP from 1982-83 to 1992-93. Public investment had led until 1982, but was gradually overtaken by private investment. The latter accounted for 12 per cent of GDP in 1996-97, but remained low in comparison to an average of 24 per cent in Asia (Handy, 1998:6-7). Real per capita income was about the same in 1995 as in 1985, the IMF analysis suggests that adequate creation of jobs and an improvement in living standards in the next century would require a growth rate of 7 per cent per year, based on an additional 6-8 per centage points of more efficiently used investment each year. The required tandem rise in the savings rate implies a need for additional foreign savings in the form of foreign direct investment and yet more liberalisation to stimulate private investment (Handy, 1998:5, 8-10).

In the eyes of the IMF Egypt has made significant strides in the realm of structural reform. These include a reduction in the rate of inflation and management of the currency to keep the Egyptian pound pegged to within 3 per cent of the US dollar. The privatisation of more than one third of the public sector portfolio since 1996 '... will help raise productivity growth and domestic savings'. There has also been a reduction in public expenditures and in the central government deficit. Indeed, Egypt's central government expenditure is lower than the regional average, as are its payments of wages and salaries to central government employees and its transfers and subsidies (Handy, 1998:3, 4, 19, 34). However, Egypt's tariffs are considered too high, and its share of world exports and imports actually decreased in the 1985-96 decade (its share of the European Union market fell from 1 per cent to 0.5 per cent). Egypt may rectify this with an association agreement with the European Union similar to those signed by Jordan, Morocco, Tunisia and Israel. The IMF suggest that due to its relatively low wages, Egypt would be 'a natural assembler of consumer goods for the EU' (Handy, 1998:69), providing jobs in these industries.

The IMF study credits structural adjustment for the surge of capital inflows into Egypt from 1991 to 1994, including the remittances and then savings of workers returning after the Gulf crisis. This surge pushed both the current account and the capital account to peak surplus levels. These flows subsequently fell back to pre-Gulf-War levels, while foreign direct investment peaked at $US1.3 billion in 1993/94 and then ebbed to US$0.6 or US$0.7 billion per annum. The IMF study takes solace from the increase in portfolio investment from a long-term constant of zero through 1994/95 to $US 0.3 billion in 1995/96 and a projected $US 1.5 billion in 1996/97. In addition, capital markets had a burst of activity from 1994 to 1997. This was reflected by a 43-fold rise in trading value, growth of market capitalisation from 8 per cent of GDP in 1993/94 to 24 per cent in 1996/97, a near doubling of transactions and more than a eight-fold rise in new equity issues (Handy, 1998:27-30).

In contrast to these bright successes in privatisation and capital markets Egypt remains a low-income country with significant poverty years after the economic reform began. While less than 8 per cent of the population are abjectly poor (living on less than $1 per day on the purchasing power parity formula), consumption surveys in the early to mid-1990s showed the overall poverty rate to have risen, with 44 per cent of the population unable to spend enough to have a minimally adequate diet (Handy, 1998:42) (Endnote 1). Falling average incomes have resulted in falling household expenditures on food (Fergany, 1988:4).

Egypt's social safety net, the Social Fund for Development, was created largely under the auspices of the World Bank. It involves the targeting of consumer subsidies (that is, paring down the universal subsidies from an earlier era to now serve only the needy), social insurance, cash transfers and income supplements for that part of the population hit hardest during structural adjustment. In addition, there are economic development programmes such as micro-credit schemes and encouragement of small enterprise (20-25,000 firms per year), expansion of community services and cottage industries, and retraining of redundant public sector workers, all of which are expected by the World Bank and IMF to increase employment (no figures are given).

However, unemployment, running at about 20 per cent in 1995, remains a serious problem. The job-creating public works projects undertaken in the early part of structural adjustment were reduced by about half, in favour of locally-run community development programmes assisted by voluntary private organisations. Privatisation seems to compound the problem. For one thing, compensation to the laid-off workers (about one-third of the total in public-sector enterprises are said to be redundant) will be very expensive ($US1.7 billion). On the other hand, while privatisation is expected to continue, other methods of restructuring public sector enterprises are also underway, including public enterprise internal reform (Law 203 of 1991) and sales of firms to their employees. In the latter case, workers have formed Employee Shareholder Association-Held Companies (ESAs) with a fair degree of success (Handy, 1998:42-55). The implications of these alternative methods may be positive for employment in the long run, as well as preserving jobs in the immediate future.

Morocco

The Moroccan economy tends to ride a steeply graded roller coaster, with its dips and peaks strongly influenced by its agricultural production, determined in turn by unpredictable rainfall. Diversifying the economy, both domestically and in production for export, is thus a central developmental necessity. A second roller-coaster factor is that Morocco has experienced periods of economic growth alternating with periods of painful austerity and recession. The last four were IMF imposed and were followed by SAPs.

Morocco has subscribed to two models of economic development, qualified state-led development and qualified economic liberalism. Between independence in 1956 and its first formal structural adjustment programme in 1983, Morocco's economic policy entailed public investment in large-scale enterprises, alongside an array of investment incentives to domestic private capital to engage in import substitution industrialisation. Accordingly, by the early 1960s, public investment had come to account for about two-thirds of total investment, even as increasingly generous terms (such as profit repatriation) came to be offered to foreign private capital too. Real GDP grew at the rate of 6.5 per cent per year from 1956 to the mid-1970s and real per capita income grew at the rate of 2 per cent per year.

Despite this success, problems soon appeared. First, the capital-intensive nature of state-led investment generated fewer manufacturing jobs than expected. Second, imports rose apace with GDP, while exports (as a share of GDP) failed to increase, despite rapid expansion of the phosphates export industry. Foreign exchange shortages began to occur. In response, Morocco imposed its first austerity programme in 1964, raising taxes, reducing government spending, and cutting imports. The costs were borne disproportionately by the poor whose share of total consumption fell from 3.3 per cent in 1960 to 1.2 per cent in 1971, while the unemployment rate rose to 35 per cent (Bourguignon and Morrison, 1989:168).

Relief came fortuitously from the sharp rise in the demand for and prices of phosphate-based fertilisers on the world market in the early 1970s. The consequent infusion of foreign exchange stimulated another round of government-led investment, raising gross fixed capital formation from 14 per cent of GDP in 1973 to 33 per cent in 1977. Faster economic growth ensued but, again, so did rising import bills, growing fiscal and trade deficits, and a widening gap between savings and investment. Morocco, like so many other developing countries, turned to borrowing on the international markets to cover these gaps. Debt increased by a factor of 10 between 1970 and 1982, while debt service rose from 11 per cent of goods and services exports in 1970 to 49 per cent in 1982 (Bourguignon and Morrison, 1989:157). By now, the boom-and-bust cycle was well-established.

The fall of phosphate prices in 1977 threw this debt-financed public-investment-led programme into another crisis. The resulting foreign exchange shortage threatened debt service, and led the government to impose a second austerity plan from 1978 to 1980. Investment, economic growth and living standards again fell while unemployment rose. The pattern was repeated on a greater scale during the world-wide recession of 1980-82, with added pain caused by an appreciating dollar (making imports more expensive) and historically high real interest rates (making debt turnover more difficult and costly).

The Moroccan government entered into an unofficial agreement with the IMF in 1980 and negotiated its first official stabilisation contract in 1981. Under intense pressure from international creditors, it then imposed an even more stringent budget for the 1981-85 development plan. The price of further debt relief was an IMF-administered structural adjustment programme beginning in 1983. That required further public budget cuts for both social and investment spending, changes in the credit, tax, and regulatory systems, as well as in social programmes and state economic enterprise management placing top priority on debt servicing (Hamdouch, 1987:161, 164-165).

The consequent recession entailed negative growth in 1983 and 1984 and investment fell from a peak of 25 per cent of GDP in 1985 to 20 per cent in 1988 (World Tables, 1993:469). This shock was imposed on an economy that had known real growth in per capita income of 2 per cent per year on average since 1960, but where per capita income in 1983 was still only $US750 (Bourguignon and Morrison, 1989:156). When deregulation of food prices and partial removal of food subsidies led to sharp price increases in January 1984, widespread riots broke out (Payne, 1993).

In the late 1980s, the decline of oil prices pulled Morocco's economy back up the roller coaster. Real GDP grew 4 per cent in 1985 and almost 6 per cent in 1986. Lower import bills, and higher exports, remittances and tourist revenues reduced the current account deficit. However, following the pattern set in previous booms, debt climbed to 71 per cent of GDP in 1986, and debt service, even after rescheduling remained over

30 per cent of goods and services exports. (Hamdouch, 1987:175). Despite the economic boom, Morocco's 1986-88 development plan embodied yet another IMF-sponsored structural adjustment programme, and after a tiff about a default, yet more stringent criteria for restoration of debt relief. Following the inevitable budget cuts, especially in the area of public capital spending, economic growth slid to just 1 per cent in 1987, while unemployment rose and consumption shrank. Per capita income fell from $US631 in 1985 to $US515 in 1988, as unemployment rose, and Morocco was demoted by the World Bank from the ranks of the lower-middle-income countries to those of the lower-income countries (Payne, 1993:154; Seddon, 1989:255).

Morocco subsequently went through two more rounds of IMF-imposed stabilisation, and continued to modify its economic policy through structural adjustment programmes supervised by the International Monetary Fund and World Bank. Finally after about twelve years, Morocco and Tunisia are 'recognised today as good pupils of the IMF and the World Bank' (Gouzi, 1994:31). Essential to the success of this strategy has been Morocco's steady access to regular infusions of international capital on concessional terms. Morocco was one of the countries singled out for special debt relief under the Brady Plan and had seven multilateral debt relief agreements between January 1980 and September 1991 (World Debt Tables, 1991-92:vol. 1, 74; also see 78 and 82). The frequency and high concessional element of these loans enabled Morocco to survive this long period of repeated austerity and structural adjustment with less pain and more growth than other severely indebted countries. However it did not reduce its stock of outstanding debt significantly (United Nations, World Economic Survey, 1991:161-164) and it did not eliminate the contradiction between growth and structural adjustment.

Morocco's 1988-1992 national plan pursued the liberalisation trend under the IMF's continuous supervision. Reversing the historic proportions between public and private shares, it called upon the private sector to compose 60 per cent of total industrial investment (Hamdouch, 1990:265-267). Further, a programme of trade liberalisation and privatisation of state economic enterprises was finally adopted by the Moroccan government. In 1991, the Moroccan government announced its intention to privatise all sectors except electricity, water, telecommunications, railroads, mining, and the national airline (Grissa, 1991:123). In 1994, even these 'strategic assets', along with phosphates, were no longer off limits and the privatisation programme was to be accelerated (EIU, no. 3, 1994:13-17).

Moroccan economists pointed out that more reliable economic growth required shifting the economy away from its close dependence on favourable weather to ensure good harvests, away from phosphate exports as the main source of foreign exchange and, accordingly, away from subjection to the widely fluctuating prices for raw materials and agricultural products on world markets (Sadik, 1987:194). While manufactured goods went from just 10 per cent of exports in 1961-62 to 40 per cent in 1983-84, the greatest part of these 'manufactured goods' remained phosphate derivatives in the late 1980s, and the fluctuating prices for these still adversely affect the Moroccan economy (Bourguignon and Morrison, 1989:160). A telling critique of Morocco's development policy since 1985 singles out the dearth of investment that has been forthcoming from the private sector, based on the proposition that public and private investment are complements not substitutes. A World Bank study on poor investment levels after the SAP noted the need for 'a healthier climate for foreign private investment' and for relieving 'bottlenecks in infrastructure investment by governments' (World Bank, 1992:3), in other words, complementary doses of public and private investment.

While public economic enterprises may well be accused of low efficiency, the other functions of public investment - in physical and social infrastructure, in proper regulation of private markets - clearly need to be met even under a privatisation campaign. Production for export may well be correlated with greater efficiency, as indicated by value-added per worker, more employment, and higher profits. However, studies of Moroccan industries have also found that public share in ownership comes in second as a corollary factor, and that foreign share in ownership comes in third (Haddad, 1993:17-18). These findings imply that, while it is not a mistake to promote exports and allow foreign capital participation in ownership, it may be a mistake to privatise all public companies.

Similarly, another study of Moroccan industry demonstrates that export industries do not necessarily contribute to increased equity, as the World Bank and IMF often argue (Bourguignon and Morrison, 1989:180-181). For Example, the textile industry and the Moroccan citrus and vegetable sectors create new jobs in export production but provide poor wages and benefits. Greater equity can be found in those export industries that employ a labour-intensive technology without fierce competition on the supply side of the labour market, or that have widespread ownership of productive inputs (such as land), a meaningful minimum wage, or some public mechanism that distributes the benefits widely through public goods, as do the public phosphate processors, would also provide greater equity (Bourguignon and Morrison, 1989:189, 302).

One of the problems of adjustment programmes is that they have both a high economic as well as social cost. This is because of their de-developing impact, with those on lower incomes suffering the most with long time lags before the average standard of living can be expected to rise (Fergany, 1998). Morocco's aggregate real GDP growth averaged less than one per cent per year from 1990 to 1995, while its GDP per capita shrank by one per cent per year (see Table 2 over). GNP per capita (a better measure of the standard of living) rose by 1.7 per cent per year, a far cry from the 11.2 per cent per year in the 1985-1990 period, before full implementation of structural adjustment. Unemployment was 23 per cent of the labour force in 1995 (Table 1). One commentator has pointed out that the World Bank claims that the poverty rate in Morocco fell from 30 per cent in 1985 to 15 per cent in 1991. He doubts though that the latter figure could have held for the 1990s because several social indicators that

Table 1: Basic Economic Features, 1995[a]

	Egypt	Morocco	Tunisia
Population (millions)	62.1	26.5	9
Real GDP Per Capita (PPP$)	3829	3477	5261
GNP Per Capita Growth Rates			
1965-80	2.8	2.7	4.7
1980-95	1.92	0.65	1.24
Education Spending (% of GNP)	5.6	5.6	6.8
Adult Literacy Rate (%)	51.4	43.7	66.7
Health Care Spending (as % of GNP)	1	0.9	3.3
Infant Mortality Rate[b]	57	64	28
Rate of Unemployment[c]	10-22	23.0	15.0

[a] ***Source***: *Human Development Report*, 1998, Tables 1, 12, 13, 15, 26. Pages: 132-133, 156-157, 158-159, 162-163, 184-185, accordingly. [b] Per 1,000 live births, 1996. [c] Handy, Howard and Staff Team, 1998. *Egypt: Beyond Stabilization, Toward a Dynamic Market Economy*, Washington DC: International Monetary Fund. p. 43.

should have continued to improve (like female primary education) deteriorated in these years (Fergany, 1998:6). Table 1 shows Morocco's adult literacy rate and infant mortality rate, which are higher and lower, respectively, than the regional averages.

The severity of these contradictions and the social cost they entail were made manifest in the December 1990 riots in Fez, in which up to 100 people died. *The New York Times* reported that with more than 100 fatalities this was the worst violence in Morocco since 1983 when there was the first IMF stabilisation. The causes were essentially due to falling real wages, rising unemployment and 'unfulfilled government pledges', and the main targets were 'symbols of wealth – banks, jewellers, boutiques, private limousines and luxury tourist hotels' (*New York Times*, 17 December 1990).

Opposition to the effect of adjustment was made again in October 1998, when hundreds of unemployed students staged demonstrations in Rabat demanding jobs. Thousands of others were kept away by riot squads, while the police used clubs to bring the demonstrators (and a female BBC reporter) to heel. The group that organised the demonstration, the 'Graduates' Jobless Union', claims to represent 300,000 university graduates and school-leavers without jobs (Rawhi Abeidoh, Reuters, 26 October 1998, Internet).

Tunisia

Since the early 1990s Tunisia has received praise for its liberal economic policies, growth of exports and aggregate growth. This praise has come from both official documents (for example, World Bank, 1993:487-489) and the general press (for example, Gouzi, 1994; McDonald and Kaslow, 1993). While the accomplishments have been impressive it is important to examine whether the bases for them are sustainable in the long run.

Like other Middle Eastern and North African countries, Tunisia underwent state-led development in the 1960s. Tunisian social scientists argue that while not all of the ambitious objectives of the three central plans of the 1960s were met, there were significant accomplishments in terms of physical infrastructure development, social infrastructure and legislation, and in the promotion of oil production, manufacturing, tourism and expansion of agricultural lands. Although the debt burden increased by a factor of 4 from 1960 to 1972, investment rose from 10 per cent to 23 per cent of GDP. Per capita income increased by an average of 2.3 per cent per year in real terms and the level of poverty decreased by one-third (Grissa, 1991:109-111; Zouari, 1993:6-9).

Centralised economic management constrained the private sector, an issue addressed by the *infitah* (economic opening) of the 1970s. However, the state remained an important actor in many productive sectors of the economy. The number of public enterprises rose from 25 in the 1960s to 400 by 1989 and government spending claimed 41 per cent of GNP in 1984 (Grissa, 1991:110-113). On the other hand, in response to various incentives such as tax benefits and profit-repatriation allowances, private investment, which had been 38 per cent of total investment in the 1960s, rose to 48 per cent in the 1970s. Foreign capital had added to the number of jobs in manufacturing, which rose from 117,000 in 1966 to 231,000 in 1976 (Hopkins, 1982:387).

The economy as a whole grew at a rapid pace, fuelled by the increase in oil revenues and by the growth of other exports such as phosphates, phosphate products, food products and manufactured goods, which increased from 10 per cent of merchandise exports in 1960 to 38 per cent in 1979 (Nellis, 1983:370-381). External debt fell to 38 per cent of GDP in 1981 and debt service, at 17 per cent of goods and services, was considered under control. GNP per capita grew 5 per cent a year from 1960 to 1979.

Yet, despite this rosy picture, Tunisia was about to go into a crisis similar to that of its neighbours. The cause of Tunisia's crisis came from the coincidence of two problematic processes, one of these was internal and the other external.

Under the leadership of Habib Bourguiba, post-independence Tunisia constructed a social contract that is widely admired. As in other strong patron states in the Middle East and North Africa, the central government appropriated power and resources to itself and then redistributed them to the various social forces that made up the parties to the 'contract'. For the better off, there were incentives to investment and economic opportunities complementary to the state sector (textile factories purchasing yarn from state spinners, for example, and selling uniforms to the armed forces) in which profits could be made. To organised labour, concentrated in the public sector, there were regular improvements in the standard of living. For the middle class, there was public education and opportunities for work as professionals in the public and private sectors after university. For the poor, there was also public education, but more immediately cheap (that is, subsidised) bread, oil, sugar and other necessities. And, as elsewhere, in exchange for the distribution of these benefits, the patron-state extracted fealty and political quiescence. What distinguished Tunisia was its more consistent commitment to providing high quality social services, such as appropriate education and health care, and to reducing poverty significantly, even when undergoing an economic recession (Hopkins, 1982:390-391).

Problems arose as the inefficiency of public enterprises became apparent and slowed economic growth. Real wages increased faster than productivity in the public sector firms, while the reverse was true in the private sector. The public sector also made significant losses. That was because it was assigned objectives other than profit-maximisation such as producing import substitutes and were not free to fire workers or raise prices. Public enterprises made significant losses, amounting to 20 per cent of government outlays from 1977 to 1981, and fell behind in their payments of taxes and social security (Grissa, 1991:113-120).

The external factor of a deep recession in the West, plus historically high interest rates, reduced demand for Tunisia's exports and made borrowing more costly. In 1984-85,

Table 2: Comparative Average Annual Growth Rates

	GDP per capita (1987 US$), 1960-95[a]			
	1960-70	1970-80	1980-90	1990-95
Egypt	3.6	5.7	2.4	-0.5
Morocco	1.7	3.1	1.6	-1.0
Tunisia		5.1	1.1	1.9
	GNP per capita, 1975-95[c]			
	1975-80	1980-85	1985-90	1990-95[b]
Egypt	9.3	4.4	1.3	3.7
Morocco	12.5	-9.5	11.2	1.7
Tunisia	12	-3.5	4.6	4.9

Source: [a]*Human Development Report*, 1998, Table 5, p. 140-142. [b] World Tables, 1995, Table 1, p. 4-5. [c] The end year (1995) for this calculation is taken from *Human Development Report*, 1998, Table 6, p. 143-145.

Tunisia experienced a severe foreign exchange crisis due to falling oil revenues and remittances, among other sources. Faced with a heavy debt-service burden and import bill, Tunisia turned to the IMF for a stand-by agreement and then to the IMF and World Bank for a structural adjustment programme in exchange for debt relief. This led to three important changes in the Tunisian economy: the unequal distribution of costs and benefits of the market-oriented reform process, the restoration of Tunisia's access to external finance, and the increased integration of the Tunisian economy with the international system of trade in goods and services.

It is clear that wage earners and the poor will suffer, at least in the short run, from the rise in prices of basic consumer goods (food, fuel) induced by the contraction of government subsidies and by the fall in wages induced by higher unemployment and reductions in public sector investment and output. An IMF-sponsored SAP exacerbates the social tensions that arise from undoing the old social contract without providing a new one. One survey found that the poorest 20 per cent of households accounted for 5.6 per cent of consumption in 1986, while the richest 20 per cent of households accounted for half of total consumption. This level of inequality suggests that removal by the state of real income supports will have severe consequences for those at the bottom. For example, the purchasing power of the income of employed workers fell by 15 per cent in 1983, and 21 per cent of rural migrants to Tunis were found to be living in shantytowns (Zouari, 1993:16).

Opposition to these austerity policies was expressed in riots in 1983 and 1984 and in strike activity led by the UGTT; these protests were often dealt with by outright repression and by curbing the autonomy of trade unions (Payne, 1993:140). The deepest problem underlying the unequal impact of the reforms is structural unemployment. The rate of unemployment was estimated at 15 per cent in 1990, the same as in 1995 (see Table 1). Given 70,000 new labour force entrants per year, the rate of unemployment would be much higher were it not for emigration and the growth of the informal sector. The latter absorbed an estimated 40,000 people per year from 1975 to 1990, and employed about 38 per cent of the non-agricultural labour force (Ferchiou, 1991:104-106).

Estimates of the annual real GDP growth rate needed to absorb the domestic labour force growth each year fall in the range of 6 to 7 per cent but fewer jobs than expected were created in the export industries, tourism, construction and public works in the 1990s. In the meantime, other aspects of the economic reform programme contributed to job loss, from the anticipated bankruptcy of between 15 and 20 per cent of Tunisian industry due to competition from imports and from the earnest pursuit of privatisation. Furthermore, employees in the newly privatised firms have found that they have neither the funds, the managerial experience or support from the government to take up the offer of discounted share purchases in the new enterprises (Zouari, 1993:2-3, 22-38; Grissa, 1991:122-125).

Economic growth was restored in Tunisia in the 1990s, at rates higher than in 1985-1990 but much lower than for the period 1970 to 1985. Real aggregate GDP growth averaged 3.9 per cent per year in the 1990s, while GDP per capita growth has been 1.9 per cent per year, and GNP per capita growth 4.9 per cent per year. This was made possible by the restoration of public investment to 23 per cent of GDP in 1991, which was in turn made possible by debt rescheduling and access to external finance (Payne, 1993, 146, 148).

Liberal reforms continued in the 1990s, with removal of controls on both producer and retail prices, reductions in import restrictions, and reduction of controls in banking and the setting of interest rates. Tunisian economists seem to agree that the state is appropriately revising its economic role to become more of a regulator and supervisor as it withdraws from direct production, and to concentrate on providing social infrastructure such as education and training (Zouari, 1993:28-29). It seems to have found the right balance between public and market economic forces.

A National Pact was legislated in 1988, which promised a 'new social contract' embodying growth with equity (Vandewalle, 1992:105-106). Indeed, Tunisia's government is given high marks for promoting social welfare over the long run. Poverty appears to have declined in the late 1980s, due to maintenance of social expenditures for education, healthcare and welfare targeted to the poor. The Tunisian national statistical office claims that the poverty rate was just 7 per cent in 1990, while the International Labour Office estimates 20 per cent (Fergany, 1998:5). Having spent 7.5 per cent of GDP on education from 1975 to 1985 and over 6 per cent since 1988 (see Table 1), Tunisia can boast 100 per cent of school age children in primary school and a literacy rate of 67 per cent. Health indicators such as the infant mortality rate have steadily improved as well, as Tunisia spends a relatively high per centage of its budget on health care. In addition, the country has the lowest rate of population growth in the Arab World, under 2 per cent in 1997, due to a long-running and highly successful family planning programme.

As a small export-oriented economy, Tunisia is vulnerable to several threats. It remains beholden to the Western agencies and banks to provide aid for programmes and funding to cover current account deficits. Debt is substantial at 53 per cent of GDP, while debt service still claims 14 per cent of goods and services exports in 1997 (World Bank, 1998). One way out of the debt trap is to switch emphasis from debt to foreign direct or portfolio investment. Tunisia has had more success attracting foreign capital than other Arab countries, however the flow varies substantially from year to year.

Increased integration with the international trade system also contains risks, but the need to service debt and to pay for imports requires increases in exports and other sources of foreign exchange. The rate of growth of exports has increased, to 5.3 per cent per year during the 1987-97 period and to 10.3 per cent in 1997 (World Bank, 1998). Exports have been diversified, with manufactured products accounting for more than 70 per cent in 1997 (World Bank, 1998) and the bulk of products shipped to Europe. Tunisia's growth is now directly dependent on growth in the EU, so that when there is a recession or any interruption of demand for political reasons, Tunisia's rate of growth falters: while the rate of growth was high from 1987 to 1990 due to high EU demand, it was barely above the rate of population growth in 1991 (due to the Gulf war) and 1993 (due to recession in Europe). Tunisia now needs to diversify away from Europe.

The industrialisation that is taking place is mainly for assembly of imported parts, in products like textiles, autos and electronics. The low value-added (that is, the difference between the value of the imported parts and the value of the exported finished product) means that Tunisia's imports tend to grow in tandem with exports. The same agreements that reduce obstacles to Tunisian exports to Europe will reduce obstacles to European exports of finished products to Tunisia. This too will cause imports to rise in tandem with exports, so that the trade balance and the current account balance are consistently negative.

To fit into the global division of labour, many countries in the developing world have gone through structural adjustment programmes and are devaluing their currency, promoting tourism, promoting diversification into manufactured exports, and trying to attract foreign direct investment. They have comparative advantages similar to Tunisia's, cheap labour with a fair level of skill acquisition, and they are all in competition with each other. This presents two matters for consideration. Reducing wages in order to meet the competition will exert downward pressure on the standard of living, that same standard of living which has risen since independence and which is cited as one of Tunisia's great accomplishments as a developing country. Second, this path is sustainable only if the world economy as a whole is growing rapidly. While the world economy has been stimulated by the United States boom in the 1990s, a US-led recession would have wide-ranging effects, likely curbing export markets for the North African economies and perhaps throwing them into recession as well.

Conclusion

An examination of these three North African cases has shown how important it is for an institutional structure to frame economic activity. It also shows that structural adjustment programmes rarely provide benefits and do not succeed even in their own terms.

A pivotal supporting institution for an economy is a policy that reaches a healthy balance between the complementary forms of public and private investment. In the cases of Egypt and Morocco, policy went first too far in the direction of public determination of investment and, now, in the late 1990s, they are in danger of going too far in the direction of private investment, even though private investment relies on public for critical functions. Tunisia appears to have come closer to a healthy balance, reaching its policy position on its own, without following IMF dicta.

Despite, or perhaps because of, SAPs, all three countries remain dependent on external finance, whether it be debt, foreign direct or portfolio investment, or foreign aid and stand-by arrangements. All three have diversified their exports, and are competing with other LDCs to attract funding or to sell products. They are now more subject to global market institutions than ever before and more vulnerable to global recession or financial crises.

While Egypt and Morocco both experienced rising inequality during their SAPs, Tunisia shows that there does not necessarily have to be a trade-off of equity for efficiency. Poverty is a logical outcome of an SAP only if a government does not have a policy to counteract it, and the case of the Moroccan phosphate industry shows that even a government without a conscious policy can promote efficiency with equity. Support for education and healthcare, along with targeted income programmes, can by itself reduce poverty by increasing human resource development.

All three cases show that the crises of the 1980s had a strong endogenous component residing in the emerging internal contradictions of state-led development. They also show how external factors in the world economy precipitated those crises. As demonstrated by Morocco's endless rounds of structural adjustment, SAPs help to deconstruct earlier institutional frameworks and, if left unchecked, exacerbate social conflicts. Tunisia's social welfare programmes were mostly its own, antedating the crisis and IMF intervention, and they helped to weather that crisis despite the dictates of the SAP. What these countries need now is more of this type of new social contract, one promoting growth with equity and including all parts of society.

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Endnote

1. This finding, quoted without comment by the author of the chapter on poverty and human development, was unearthed by USAID researcher Patrick Cardiff, and stirred some controversy within both the IMF and the World Bank when it was circulated in draft form. The bibliographic citation is inaccurate: while the sponsoring organisation is the Middle East Economic Association, the publisher is JAI Press Inc, Stamford CT, and the year 1997.

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